

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                |  |                           |
|---|--------------------------------|--|---------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other |                                | Local Government Name<br><b>Village of Ravenna</b>           | County<br><b>Muskegon</b> |
| Audit Date<br><b>12/31/04</b>   | Opinion Date<br><b>5/12/05</b> | Date Accountant Report Submitted to State:<br><b>6/24/05</b> |                           |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

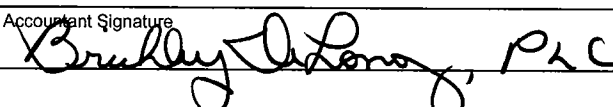
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |  |                         |                    |
|---|--|-------------------------|--------------------|
| Certified Public Accountant (Firm Name)<br><b>Brickley DeLong</b>   |  |                         |                    |
| Street Address<br><b>500 Terrace Plaza P.O. Box 999</b>   |  | City<br><b>Muskegon</b> | State<br><b>MI</b> |
|   |  | ZIP<br><b>49443</b>     |                    |
| Accountant Signature<br> |  | Date<br><b>6/24/05</b>  |                    |

Village of Ravenna  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended December 31, 2004

Village of Ravenna

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**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

As management of the Village of Ravenna, we present to the readers of the Village's financial statements this overview and analysis of the financial activities of the Village of Ravenna for the fiscal year ended December 31, 2004. We encourage you to consider the information presented in these financial statements along with the additional information that has been furnished in this letter. To those familiar with this prior year financial statements or just new to this document, it is important to know that the Village is presenting this analysis along with these statements in a new format prescribed by the provisions of the Governmental Accounting Standards Board Statement 34 (GASB 34).

**FINANCIAL HIGHLIGHTS**

- The assets of the Village of Ravenna exceeded its liabilities of \$220,225 at the close of the fiscal year by \$2,281,924 (net assets). Of this amount, \$757,281 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.
- As of the close of the 2004 fiscal year, the Village of Ravenna's governmental activities added \$26,741 to net assets and ended this year with \$1,143,368. The business type activities added \$56,534 to net assets and ended the year with \$1,138,556.
- During 2004, the Village purchased a backhoe for \$61,950 and a riding mower for \$9,326. In addition, the Village paved an alley behind Keefe's Pharmacy for \$12,925.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Village's basic financial statements. The Village of Ravenna's basic financial statements are comprised of three components: 1) governmental-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements**

The governmental-wide financial statements are designed to provide the reader with a broad overview of the Village's finances. These statements are similar to those of a private sector business.

The Statement of Net Assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Village is improving or deteriorating.

The Statement of Activities presents information showing how the Village's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

Both of the government-wide financial statements mentioned above distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The governmental activities of the Village of Ravenna include general government, public safety, public works and cultural and recreational activities. The business-type activities of the Village include water distribution and sewer services.

The government-wide financial statements include not only the Village of Ravenna (the primary government) but also the legally separate Downtown Development Authority. The board of this organization is appointed by the Village and given the interrelation of the two, there is some potential liability for the Village due to the Village's pledge of its full faith and credit for debt obligations. The financial information of this component unit is reported in a separate column from the financial information of the primary government itself.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Village of Ravenna, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into two categories—governmental funds and proprietary funds.

**Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The Village of Ravenna maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, which are considered to be major funds.

**Proprietary Funds.** The Village of Ravenna has one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Village uses enterprise funds to account for its water distribution and sewer operations.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provided separate information for Water and Sewer funds, both of which are major funds.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Village's budgetary information as it relates to the actual expenditures for the General Fund and Major Streets Fund.

**Government-wide Financial Analysis**

The first table presented below is a summary of the government-wide statement of net assets for the Village of Ravenna. As stated earlier, the net assets may be used as an indicator of a government's financial health. As of December 31, the Village's net assets from governmental activities totaled \$1,143,368 (50.1%) and \$1,138,556 (49.9%) from business-type activities, creating a total government-wide net assets total of \$2,281,924. Since this is the first year the Village has prepared financial statements following GASB 34, comparisons to fiscal year 2003 are not available.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., infrastructure, buildings, land, vehicles, equipment, etc). These assets are used to provide services to the Village's residents, and they are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities are \$211,979. This represents the amount of discretionary cash or investments that can be used for general governmental operations.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

**TABLE 1**  
**Village of Ravenna Net Assets**

|                         | Governmental<br>Activities<br>2004 | Business-type<br>Activities<br>2004 | Total               |
|-------------------------|------------------------------------|-------------------------------------|---------------------|
| <u>Assets</u>           |                                    |                                     |                     |
| Current                 | \$ 514,570                         | \$ 326,218                          | \$ 840,788          |
| Capital assets          | 705,459                            | 955,902                             | 1,661,361           |
| <b>Total</b>            | <u>1,220,029</u>                   | <u>1,282,120</u>                    | <u>2,502,149</u>    |
| <u>Liabilities</u>      |                                    |                                     |                     |
| Current                 | 76,661                             | 44,846                              | 121,507             |
| Noncurrent              | -                                  | 98,718                              | 98,718              |
| <b>Total</b>            | <u>76,661</u>                      | <u>143,564</u>                      | <u>220,225</u>      |
| <u>Net assets</u>       |                                    |                                     |                     |
| Capital, net of debt    | 705,459                            | 819,184                             | 1,524,643           |
| Restricted for streets  | 225,930                            | -                                   | 225,930             |
| Unrestricted            | 211,979                            | 319,372                             | 531,351             |
| <b>Total net assets</b> | <u>\$ 1,143,368</u>                | <u>\$ 1,138,556</u>                 | <u>\$ 2,281,924</u> |

**Governmental Activities**

Governmental activities increased by \$26,741, accounting for 32% of the total growth in net assets. Table 2 depicts this occurrence which will be discussed in more detail later in this analysis.

**Business-type activities**

At the end of the fiscal year, the net assets for business-type activities increased by \$56,534 or 67% of the total growth in net assets. The water and sewer funds comprise the business-type activities.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

**TABLE 2**  
**Village of Ravenna Change in Net Assets**

|                                       | Governmental<br>Activities<br>2004 | Business-type<br>Activities<br>2004 | Total                      |
|---------------------------------------|------------------------------------|-------------------------------------|----------------------------|
| <b>Revenues:</b>                      |                                    |                                     |                            |
| Program revenues                      |                                    |                                     |                            |
| Charge for services                   | \$ 105,438                         | \$ 298,030                          | \$ 403,468                 |
| Operating grants                      | 121,185                            | -                                   | 121,185                    |
| General revenues                      |                                    |                                     |                            |
| Property taxes                        | 202,608                            | -                                   | 202,608                    |
| State shared revenues                 | 98,196                             | -                                   | 98,196                     |
| Unrestricted investment earnings      | 1,942                              | 2,324                               | 4,266                      |
| Miscellaneous                         | 20,243                             | 11,717                              | 31,960                     |
| Loss on sale of assets                | (3,865)                            | -                                   | (3,865)                    |
| <b>Total revenues</b>                 | <u>545,747</u>                     | <u>312,071</u>                      | <u>857,818</u>             |
| <b>Expenses:</b>                      |                                    |                                     |                            |
| General government                    | 58,433                             | -                                   | 58,433                     |
| Public safety                         | 66,313                             | -                                   | 66,313                     |
| Public works                          | 349,670                            | -                                   | 349,670                    |
| Culture and recreation                | 44,590                             | -                                   | 44,590                     |
| Sewer Fund                            | -                                  | 129,119                             | 129,119                    |
| Water Fund                            | -                                  | 126,418                             | 126,418                    |
| <b>Total expenses</b>                 | <u>519,006</u>                     | <u>255,537</u>                      | <u>774,543</u>             |
| Increase in net assets                | 26,741                             | 56,534                              | 83,275                     |
| Net assets - January 1, 2004          | <u>1,116,627</u>                   | <u>1,082,022</u>                    | <u>2,198,649</u>           |
| <b>Net assets - December 31, 2004</b> | <u><u>\$ 1,143,368</u></u>         | <u><u>\$ 1,138,556</u></u>          | <u><u>\$ 2,281,924</u></u> |

### **Financial Analysis of the Government's Funds**

As stated earlier in this discussion and analysis, the Village of Ravenna uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds.** The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balances or the lack thereof, may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

At the end of the 2004 fiscal year, the governmental funds reported a combined fund balance of \$437,909. Of this number \$437,198 represents the unreserved fund balance, comprised of \$210,361 in the General Fund, \$196,417 in the Major Streets Fund and \$29,513 in the Local Streets Fund. It is necessary to further distinguish between the unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the Village's discretion. The remainder of the fund balance of \$1,618 is reserved to indicate that it is not available for new spending because it has already been committed to enforcement activities.

**Proprietary Funds**

The Village proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net assets of the Sewer Fund at the end of the year decreased by \$4,268. The water fund increased by \$60,802. The result was an overall net increase in the proprietary funds of \$56,534.

**General Fund Budget**

One budget amendment was made to the original budget during the year. General Fund expenditures were increased in capital outlay for the purchase of a riding mower and for a down payment on a backhoe.

**Capital Assets Administration**

The Village's investment in capital assets for its governmental and business-type activities as of December 31, 2004 totaled \$1,661,361 (net of accumulated depreciation). This investment in capital assets includes land, buildings, infrastructure, improvements, machinery, equipment and vehicles.

Major capital asset events during the current fiscal year included the purchase of a riding mower, backhoe and the paving of an alley.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

**TABLE 3**  
**Village of Ravenna Capital Assets**  
**(Net of Accumulated Depreciation)**

|                            | Governmental<br>Activities<br>2004 | Business-type<br>Activities<br>2004 | Total               |
|----------------------------|------------------------------------|-------------------------------------|---------------------|
| Land                       | \$ 15,000                          | \$ 32,963                           | \$ 47,963           |
| Infrastructure             | 507,705                            | -                                   | 507,705             |
| Land improvement           | 23,169                             | -                                   | 23,169              |
| Buildings and improvements | 41,944                             | -                                   | 41,944              |
| Furniture and equipment    | 100,578                            | -                                   | 100,578             |
| Vehicles                   | 17,063                             | -                                   | 17,063              |
| Machinery and equipment    | -                                  | 27,004                              | 27,004              |
| Plants and infrastructure  | -                                  | 895,935                             | 895,935             |
| Total                      | \$ <u>705,459</u>                  | \$ <u>955,902</u>                   | \$ <u>1,661,361</u> |

**Long-Term Debt**

At the end of the 2004 fiscal year, the Village of Ravenna had total outstanding debt of \$136,718 consisting of a general obligation bond and revenue bonds. The debt is backed by the full-faith and credit of the Village. Approximately \$134,000 or (98%) of the Village's outstanding debt represented in the table below is recorded as revenue bonds. The payment of this debt service is anticipated through the revenues generated from the water and sewer services in the enterprise funds.

**TABLE 4**  
**Village of Ravenna Outstanding Debt**

|                          | Business-type<br>Activities<br>2004 |
|--------------------------|-------------------------------------|
| General obligation bonds | \$ 2,718                            |
| Revenue bonds            | <u>134,000</u>                      |
| Total                    | <u>\$ 136,718</u>                   |

The Village's total debt decreased by \$78,445 during the fiscal year. This reduction was due to normal debt payoffs as provided for in the fiscal year 2004 budget.

Additional information on the Village of Ravenna's long-term debt can be found in Note F of the notes to the financial statements, beginning on page 12.

**Village of Ravenna**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
December 31, 2004

**General Economic Overview**

The General Fund is comprised of two major revenue sources, state revenue sharing and property tax revenue. Those two sources comprised over 68% of the General Fund revenue sources. In 2005, state revenue sharing is expected to decline.

The Village Council and staff have budgeted for 2005 the paving of Blackmer Road (\$154,000), the purchase of a plow/dump truck (\$12,000) and irrigation for Conklin Park (\$5,000).

**Requests for Information**

This financial report is designed to provide a general overview of the Village of Ravenna's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Village of Ravenna, 12090 Crockery Creek Drive, Ravenna, Michigan, 49451, (231) 853-2360.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

May 12, 2005

To the Honorable President and  
Members of the Village Council  
Village of Ravenna  
Ravenna, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ravenna as of and for the year ended December 31, 2004, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Ravenna's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial and its contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Ravenna, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued our report dated May 12, 2005, on our consideration of the Village of Ravenna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note A, the Village of Ravenna has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as of December 31, 2004.

BRICKLEY DELONG

To the Honorable President and  
Members of the Village Council  
May 12, 2005  
Page 2

The management's discussion and analysis and budgetary comparison information on pages i through viii and 26 and 27 are not a required part of the basic financial statement but are supplemental information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Ravenna's basic financial statements. The combining nonmajor governmental funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor funds financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brickley DeLong, P.C.*

Village of Ravenna  
**STATEMENT OF NET ASSETS**  
December 31, 2004

| ASSETS  |                            |                             |              | Component<br>Unit                    |
|---|----------------------------|-----------------------------|--------------|--------------------------------------|
|   | Governmental<br>activities | Business-type<br>activities | Total        | Downtown<br>Development<br>Authority |
| CURRENT ASSETS  |                            |                             |              |                                      |
| Cash and investments  | \$ 466,699                 | \$ 285,253                  | \$ 751,952   | \$ -                                 |
| Receivables   |                            |                             |              |                                      |
| Accounts  | 3,098                      | 19,212                      | 22,310       | -                                    |
| Taxes   | 15,499                     | -                           | 15,499       | -                                    |
| Due from primary government   | -                          | -                           | -            | 659                                  |
| Internal balances   | (21,753)                   | 21,753                      | -            | -                                    |
| Due from other governmental units                                     | 51,027                     | -                           | 51,027       | 968                                  |
| Total current assets  | 514,570                    | 326,218                     | 840,788      | 1,627                                |
| NONCURRENT ASSETS   |                            |                             |              |                                      |
| Capital assets, net   |                            |                             |              |                                      |
| Nondepreciable  | 15,000                     | 32,963                      | 47,963       | -                                    |
| Depreciable   | 690,459                    | 922,939                     | 1,613,398    | -                                    |
| Total noncurrent assets   | 705,459                    | 955,902                     | 1,661,361    | -                                    |
| Total assets  | 1,220,029                  | 1,282,120                   | 2,502,149    | 1,627                                |
| LIABILITIES AND NET ASSETS  |                            |                             |              |                                      |
| CURRENT LIABILITIES   |                            |                             |              |                                      |
| Accounts payable  | 69,542                     | 4,870                       | 74,412       | -                                    |
| Accrued liabilities   | 6,460                      | 1,976                       | 8,436        | -                                    |
| Due to component unit   | 659                        | -                           | 659          | -                                    |
| Bonds, capital leases and contracts, due within one year              | -                          | 38,000                      | 38,000       | -                                    |
| Total current liabilities   | 76,661                     | 44,846                      | 121,507      | -                                    |
| NONCURRENT LIABILITIES  |                            |                             |              |                                      |
| Bonds, capital leases and contracts, less amounts due within one year | -                          | 98,718                      | 98,718       | -                                    |
| Total liabilities   | 76,661                     | 143,564                     | 220,225      | -                                    |
| NET ASSETS  |                            |                             |              |                                      |
| Invested in capital assets, net of related debt                       | 705,459                    | 819,184                     | 1,524,643    | -                                    |
| Restricted for streets  | 225,930                    | -                           | 225,930      | -                                    |
| Unrestricted  | 211,979                    | 319,372                     | 531,351      | 1,627                                |
| Total net assets  | \$ 1,143,368               | \$ 1,138,556                | \$ 2,281,924 | \$ 1,627                             |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**STATEMENT OF ACTIVITIES**  
For the year ended December 31, 2004

| <i>Functions/Programs</i>                                    | Net (Expense) Revenue and Changes in Net Assets |                      |                                    |                         |                          |              |                                |
|--|---|----------------------|------------------------------------|-------------------------|--------------------------|--------------|--------------------------------|
|  | Expenses  | Program Revenue      |                                    | Primary Government      |                          |              | Component unit                 |
|  |   | Charges for services | Operating grants and contributions | Governmental activities | Business-type activities | Total        | Downtown Development Authority |
| Primary government   |   |                      |                                    |                         |                          |              |                                |
| Governmental activities                                      |   |                      |                                    |                         |                          |              |                                |
| General government   | \$ 58,433                                       | \$ 4,635             | \$ -                               | \$ (53,798)             | \$ -                     | \$ (53,798)  | \$ -                           |
| Public safety  | 66,313  | -                    | -                                  | (66,313)                | -                        | (66,313)     | -                              |
| Public works   | 349,670   | 100,803              | 121,185                            | (127,682)               | -                        | (127,682)    | -                              |
| Culture and recreation                                       | 44,590  | -                    | -                                  | (44,590)                | -                        | (44,590)     | -                              |
| Total governmental activities                                | 519,006   | 105,438              | 121,185                            | (292,383)               | -                        | (292,383)    | -                              |
| Business-type activities                                     |   |                      |                                    |                         |                          |              |                                |
| Sewer  | 129,119   | 123,892              | -                                  | -                       | (5,227)                  | (5,227)      | -                              |
| Water  | 126,418   | 174,138              | -                                  | -                       | 47,720                   | 47,720       | -                              |
| Total business-type activities                               | 255,537   | 298,030              | -                                  | -                       | 42,493                   | 42,493       | -                              |
| Total primary government                                     | \$ 774,543                                      | \$ 403,468           | \$ 121,185                         | (292,383)               | 42,493                   | (249,890)    | -                              |
| Component unit   |   |                      |                                    |                         |                          |              |                                |
| Downtown Development Authority                               | \$ -  | \$ -                 | \$ -                               | -                       | -                        | -            | -                              |
| General revenues   |   |                      |                                    |                         |                          |              |                                |
| Property taxes, levied for general purposes                  |   |                      |                                    | 202,608                 | -                        | 202,608      | 1,627                          |
| Grants and contributions not restricted to specific programs |   |                      |                                    | 98,196                  | -                        | 98,196       |                                |
| Unrestricted investment earnings                             |   |                      |                                    | 1,942                   | 2,324                    | 4,266        | -                              |
| Miscellaneous  |   |                      |                                    | 20,243                  | 11,717                   | 31,960       | -                              |
| Loss on sale of capital assets                               |   |                      |                                    | (3,865)                 | -                        | (3,865)      | -                              |
| Total general revenues and special items                     |   |                      |                                    | 319,124                 | 14,041                   | 333,165      | 1,627                          |
| Change in net assets   |   |                      |                                    | 26,741                  | 56,534                   | 83,275       | 1,627                          |
| Net assets at January 1, 2004                                |   |                      |                                    | 1,116,627               | 1,082,022                | 2,198,649    | -                              |
| Net assets at December 31, 2004                              |   |                      |                                    | \$ 1,143,368            | \$ 1,138,556             | \$ 2,281,924 | \$ 1,627                       |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**BALANCE SHEET**  
 Governmental Funds  
 December 31, 2004

|   | General<br>Fund   | Major<br>Streets<br>Fund | Other<br>governmental<br>funds<br>Local<br>Streets<br>Fund | Total<br>governmental<br>funds |
|---|-------------------|--------------------------|--|--------------------------------|
| <b>ASSETS</b>                                 |                   |                          |  |                                |
| Cash and investments                          | \$ 255,602        | \$ 184,685               | \$ 26,412  | \$ 466,699                     |
| Receivables                                   |                   |                          |  |                                |
| Accounts                                      | 3,098             | -                        | -  | 3,098                          |
| Taxes   | 15,499            | -                        | -  | 15,499                         |
| Due from other governmental units             | 33,824            | 13,265                   | 3,938  | 51,027                         |
| Total assets                                  | <u>\$ 308,023</u> | <u>\$ 197,950</u>        | <u>\$ 30,350</u>   | <u>\$ 536,323</u>              |
| <b>LIABILITIES AND FUND BALANCES</b>          |                   |                          |  |                                |
| Liabilities                                   |                   |                          |  |                                |
| Accounts payable                              | \$ 68,253         | \$ 859                   | \$ 430   | \$ 69,542                      |
| Accrued liabilities                           | 5,379             | 674                      | 407  | 6,460                          |
| Due to other funds                            | 21,753            | -                        | -  | 21,753                         |
| Due to component unit                         | 659               | -                        | -  | 659                            |
| Total liabilities                             | 96,044            | 1,533                    | 837  | 98,414                         |
| Fund balances                                 |                   |                          |  |                                |
| Reserved for enforcement activities - permits | 1,618             | -                        | -  | 1,618                          |
| Unreserved                                    |                   |                          |  |                                |
| General Fund                                  | 210,361           | -                        | -  | 210,361                        |
| Special revenue funds                         | -                 | 196,417                  | 29,513   | 225,930                        |
| Total fund balances                           | 211,979           | 196,417                  | 29,513   | 437,909                        |
| Total liabilities and fund balances           | <u>\$ 308,023</u> | <u>\$ 197,950</u>        | <u>\$ 30,350</u>   | <u>\$ 536,323</u>              |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**  
December 31, 2004

|                                       |            |
|---------------------------------------|------------|
| Total fund balance—governmental funds | \$ 437,909 |
|---------------------------------------|------------|

Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

|                          |                  |                |
|--------------------------|------------------|----------------|
| Cost of capital assets   | \$ 1,199,188     |                |
| Accumulated depreciation | <u>(493,729)</u> | <u>705,459</u> |

|  |                            |
|--|----------------------------|
| Net assets of governmental activities in the Statement of Net Assets | \$ <u><u>1,143,368</u></u> |
|--|----------------------------|

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended December 31, 2004

|  | General<br>Fund | Major<br>Streets<br>Fund | Other<br>governmental<br>funds<br>Local<br>Streets<br>Fund | Total<br>governmental<br>funds |
|--|-----------------|--------------------------|--|--------------------------------|
| REVENUES                                     |                 |                          |  |                                |
| Property taxes                               | \$ 202,608      | \$ -                     | \$ -   | \$ 202,608                     |
| Licenses and permits                         | 4,635           | -                        | -  | 4,635                          |
| Intergovernmental revenues - state           | 98,196          | 94,138                   | 26,439   | 218,773                        |
| Charges for services                         | 45,860          | -                        | -  | 45,860                         |
| Investment earnings                          | 1,942           | 389                      | 218  | 2,549                          |
| Other  | 75,186          | -                        | -  | 75,186                         |
| Total revenues                               | 428,427         | 94,527                   | 26,657   | 549,611                        |
| EXPENDITURES                                 |                 |                          |  |                                |
| Current                                      |                 |                          |  |                                |
| General government                           | 52,306          | -                        | -  | 52,306                         |
| Public safety                                | 65,658          | -                        | -  | 65,658                         |
| Public works                                 | 171,329         | 65,629                   | 35,805   | 272,763                        |
| Culture and recreation                       | 35,941          | -                        | -  | 35,941                         |
| Other governmental functions                 | 33,523          | -                        | -  | 33,523                         |
| Capital outlay                               | 84,201          | -                        | -  | 84,201                         |
| Total expenditures                           | 442,958         | 65,629                   | 35,805   | 544,392                        |
| Excess of revenues over (under) expenditures | (14,531)        | 28,898                   | (9,148)  | 5,219                          |
| OTHER FINANCING SOURCES                      |                 |                          |  |                                |
| Proceeds from sale of fixed assets           | 23,500          | -                        | -  | 23,500                         |
| Net change in fund balances                  | 8,969           | 28,898                   | (9,148)  | 28,719                         |
| Fund balances at January 1, 2004             | 203,010         | 167,519                  | 38,661   | 409,190                        |
| Fund balances at December 31, 2004           | \$ 211,979      | \$ 196,417               | \$ 29,513  | \$ 437,909                     |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
For the year ended December 31, 2004

|  |    |        |
|--|----|--------|
| Net change in fund balances—total governmental funds | \$ | 28,719 |
|--|----|--------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

|                      |    |               |        |
|----------------------|----|---------------|--------|
| Depreciation expense | \$ | (58,814)      |        |
| Capital outlay       |    | <u>84,201</u> | 25,387 |

Governmental funds report the proceeds from the sale of capital assets as revenue. However, the proceeds are netted against the net book value of the assets in determining the gain (loss) on sale in the statement of activities.

(27,365)

|   |    |                      |
|---|----|----------------------|
| Change in net assets of governmental activities | \$ | <u><u>26,741</u></u> |
|---|----|----------------------|

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**STATEMENT OF NET ASSETS**  
 Proprietary Funds  
 December 31, 2004

ASSETS

|   | Enterprise Funds |            |              |
|---|------------------|------------|--------------|
|   | Sewer            | Water      | Total        |
| <b>CURRENT ASSETS</b>   |                  |            |              |
| Cash and investments  | \$ 11,517        | \$ 273,736 | \$ 285,253   |
| Accounts receivable   | 9,528            | 9,684      | 19,212       |
| Due from other funds  | 21,753           | -          | 21,753       |
| Total current assets  | 42,798           | 283,420    | 326,218      |
| <b>NONCURRENT ASSETS</b>  |                  |            |              |
| Capital assets, net   |                  |            |              |
| Nondepreciable  | 31,800           | 1,163      | 32,963       |
| Depreciable   | 772,579          | 150,360    | 922,939      |
| Total noncurrent assets   | 804,379          | 151,523    | 955,902      |
| Total assets  | 847,177          | 434,943    | 1,282,120    |
| <b>LIABILITIES AND NET ASSETS</b>                                     |                  |            |              |
| <b>CURRENT LIABILITIES</b>  |                  |            |              |
| Accounts payable  | 1,700            | 3,170      | 4,870        |
| Accrued liabilities   | 1,185            | 791        | 1,976        |
| Bonds, capital leases and contracts, due within one year              | 28,000           | 10,000     | 38,000       |
| Total current liabilities   | 30,885           | 13,961     | 44,846       |
| <b>NONCURRENT LIABILITIES</b>   |                  |            |              |
| Bonds, capital leases and contracts, less amounts due within one year | 68,718           | 30,000     | 98,718       |
| Total liabilities   | 99,603           | 43,961     | 143,564      |
| <b>NET ASSETS</b>   |                  |            |              |
| Invested in capital assets, net of related debt                       | 707,661          | 111,523    | 819,184      |
| Unrestricted  | 39,913           | 279,459    | 319,372      |
| Total net assets  | \$ 747,574       | \$ 390,982 | \$ 1,138,556 |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Proprietary Funds  
 For the year ended December 31, 2004

|  | Enterprise Funds |            |              |
|--|------------------|------------|--------------|
|  | Sewer            | Water      | Total        |
| REVENUES                               |                  |            |              |
| Charges for services                   | \$ 116,067       | \$ 172,636 | \$ 288,703   |
| Other                                  | 140              | 11,577     | 11,717       |
| Total operating revenues               | 116,207          | 184,213    | 300,420      |
| OPERATING EXPENSES                     |                  |            |              |
| Operations                             | 93,382           | 113,789    | 207,171      |
| Depreciation and amortization          | 29,837           | 10,266     | 40,103       |
| Total operating expenses               | 123,219          | 124,055    | 247,274      |
| Operating income (loss)                | (7,012)          | 60,158     | 53,146       |
| NONOPERATING REVENUES (EXPENSES)       |                  |            |              |
| Investment income                      | 819              | 1,505      | 2,324        |
| Connection fees                        | 7,825            | 1,502      | 9,327        |
| Interest expense                       | (5,900)          | (2,363)    | (8,263)      |
| Total nonoperating revenues (expenses) | 2,744            | 644        | 3,388        |
| Net income (loss)                      | (4,268)          | 60,802     | 56,534       |
| Total net assets at January 1, 2004    | 751,842          | 330,180    | 1,082,022    |
| Total net assets at December 31, 2004  | \$ 747,574       | \$ 390,982 | \$ 1,138,556 |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**STATEMENT OF CASH FLOWS**  
Proprietary Funds  
For the year ended December 31, 2004

|   | Enterprise Funds  |                   |                   |
|---|-------------------|-------------------|-------------------|
|   | Sewer             | Water             | Total             |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                   |                   |                   |
| Receipts from customers   | \$ 116,775        | \$ 137,108        | \$ 253,883        |
| Payments to suppliers   | (98,822)          | (112,679)         | (211,501)         |
| Internal activity—receipts from other funds   | (21,753)          | 19,058            | (2,695)           |
| Other receipts  | 140               | 30,635            | 30,775            |
| Net cash provided by (used for) operating activities  | (3,660)           | 74,122            | 70,462            |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                   |                   |                   |                   |
| Principal and interest paid on capital debt   | (74,345)          | (12,363)          | (86,708)          |
| Other receipts (payments)   | 7,825             | 2,659             | 10,484            |
| Net cash used for capital and related financing activities  | (66,520)          | (9,704)           | (76,224)          |
| <b>CASH FLOW FROM INVESTING ACTIVITIES</b>  |                   |                   |                   |
| Investment earnings   | 819               | 1,505             | 2,324             |
| Net increase (decrease) in cash and investments   | (69,361)          | 65,923            | (3,438)           |
| Cash and investments at January 1, 2004   | 80,878            | 207,813           | 288,691           |
| Cash and investments at December 31, 2004   | <u>\$ 11,517</u>  | <u>\$ 273,736</u> | <u>\$ 285,253</u> |
| <b>Reconciliation of operating income to net cash provided by (used for) operating activities</b> |                   |                   |                   |
| Operating income (loss)   | \$ (7,012)        | \$ 60,158         | \$ 53,146         |
| Adjustments to reconcile operating income to net cash provided by (used for) operating activities |                   |                   |                   |
| Depreciation and amortization expense   | 29,837            | 10,266            | 40,103            |
| Change in assets and liabilities  |                   |                   |                   |
| Receivables, net  | 709               | 2,587             | 3,296             |
| Internal activity   | (21,753)          | -                 | (21,753)          |
| Accounts and other payables   | (6,626)           | 319               | (6,307)           |
| Accrued liabilities   | 1,185             | 792               | 1,977             |
| Net cash provided by (used for) operating activities  | <u>\$ (3,660)</u> | <u>\$ 74,122</u>  | <u>\$ 70,462</u>  |

The accompanying notes are an integral part of this statement.

Village of Ravenna  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Village of Ravenna (Village) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Village's accounting policies are described below.

Effective January 1, 2004, the Village and its component unit adopted GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, as amended by GASB Statement No. 37 and No. 38. These statements primarily establish standards for external financial reporting for state and local governments. Certain significant changes in these statements include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Village’s overall financial position and results of operations.
- Government-wide financial statements prepared using full accrual accounting for all of the Village’s activities.
- A change in the fund financial statements to focus on the major funds.
- Expansion of footnote disclosures.
- These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

The beginning net assets restated for the effects of implementation of GASB Statement No. 34 are as follows:

|   | Village<br>governmental<br>activities |
|---|---------------------------------------|
| Fund balances at January 1, 2004—governmental funds | \$ 409,190                            |
| Capital assets, net                                 | <u>707,437</u>                        |
| Restated net assets at January 1, 2004              | <u>\$ 1,116,627</u>                   |

**1. Reporting Entity**

The Village of Ravenna (Village) is a municipal corporation governed by an elected five-member Village Council and is administered by a Village manager appointed by the Village Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

***Discretely presented component units***

The discretely presented component unit is reported in a separate column in the combined financial statements to emphasize that it is legally separate from the primary government. The discretely presented component unit has a December 31 fiscal year end. The discretely presented component unit is a ***Downtown Development Authority (DDA)***. The DDA board is appointed by the Village Council, but the Authority operates as a separate entity. The board can authorize and issue debt independent from the Village. The component unit is presented as a governmental fund type.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

The Village reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund is used to account for gas and weight tax allocations to the Village by the Michigan Department of Transportation for construction and maintenance of the Village's major streets.

The Village reports the following two major proprietary funds:

The Sewer Fund operates the Village's sewage pumping station and collection systems.

The Water Fund operates the Village's water distribution system.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the Village's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The Village's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

The Village has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the Village to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component units' cash and investments are maintained within the Village's investment pool. All investments are stated at fair value.

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The county processes property taxes. The Village does not collect taxes for any other taxing unit. Taxes are levied on each July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollectible real property taxes as of the following March 1 are turned over by the Village to the County for collection. The County advances the Village all these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the Village. The Village recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2004 state taxable value for real/personal property of the Village totaled approximately \$23,386,000 of which approximately \$79,600 was captured by the component unit. The ad valorem taxes levied consisted of 8.2764 mills for the Village's operating purposes. These amounts are recognized in the respective General Fund and component unit.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**c. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component unit, is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>              | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 25-40        |
| Plant and systems          | 30-50        |
| Infrastructure             | 20           |
| Land improvements          | 20           |
| Equipment                  | 5-20         |

**d. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**e. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**f. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The Village follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to November 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the Village Hall to obtain taxpayer comments.
- c. Prior to January 1, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the Village Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The Village's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Village Council. The legal level of budgetary control is the department level for the General Fund and the fund level for all other governmental funds.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**2. Excess of Expenditures Over Appropriations**

For the year ended December 31, 2004, expenditures exceeded appropriations for police and fire protection by \$6,872 and for capital outlay by \$54,201 in the General Fund. Total expenditures also exceeded appropriations in the Major Streets Fund by \$6,679. These overexpenditures were funded by available fund balance.

**NOTE C—DEPOSITS AND INVESTMENTS**

**1. Deposits**

The Village's deposits are categorized to give an indication of the level of risk assumed by the entity at year end. Category 1 includes deposits insured or collateralized with securities held by the entity or its agent in the entity's name. Category 2 includes deposits collateralized with securities held by the pledging financial institutions' trust department or agent in the entity's name. Category 3 includes deposits which are uncollateralized.

As of December 31, 2004, the Village's and component units' carrying amount of deposits was \$723,497, and the bank balance was \$725,288. Of the bank balance, \$197,002 was covered by federal depository insurance. The remaining \$528,286 was uninsured and uncollateralized.

**2. Investments**

As of December 31, 2004, the Village's and component units' investments represented holdings in investment pools and mutual funds. During the year ended December 31, 2004, the Village's investments were only in these types of investments.

The Village's investments are categorized below to give an indication of the level of risk assumed by the entity at year end. Category 1 includes investments that are insured or registered, or the securities held by the Village or its agent in the Village's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Village's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Village's name. The state-approved investment pools are not categorized as they are synonymous with mutual funds. As of December 31, 2004, the Village's fair value in those pools and mutual funds were \$28,455.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE D—CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2004 was as follows:

|   | Balance<br>January 1,<br>2004 | Additions          | Deductions       | Balance<br>December 31,<br>2004 |
|---|-------------------------------|--------------------|------------------|---------------------------------|
| <b>Governmental activities:</b>               |                               |                    |                  |                                 |
| <b>Capital assets, not being depreciated:</b> |                               |                    |                  |                                 |
| Land  | \$ 15,000                     | \$ -               | \$ -             | \$ 15,000                       |
| <b>Capital assets, being depreciated:</b>     |                               |                    |                  |                                 |
| Infrastructure                                | 813,767                       | -                  | -                | 813,767                         |
| Land improvements                             | 13,802                        | 12,925             | -                | 26,727                          |
| Buildings and other improvements              | 153,110                       | -                  | -                | 153,110                         |
| Furniture and equipment                       | 106,202                       | 71,276             | 57,538           | 119,940                         |
| Vehicles                                      | <u>70,643</u>                 | <u>-</u>           | <u>-</u>         | <u>70,643</u>                   |
| Total capital assets, being depreciated       | 1,157,524                     | 84,201             | 57,538           | 1,184,187                       |
| <b>Less accumulated depreciation for:</b>     |                               |                    |                  |                                 |
| Infrastructure                                | 265,374                       | 40,688             | -                | 306,062                         |
| Land improvements                             | 2,760                         | 798                | -                | 3,558                           |
| Buildings and other improvements              | 108,277                       | 2,889              | -                | 111,166                         |
| Furniture and equipment                       | 43,837                        | 5,698              | 30,173           | 19,362                          |
| Vehicles                                      | <u>44,839</u>                 | <u>8,741</u>       | <u>-</u>         | <u>53,580</u>                   |
| Total accumulated depreciation                | <u>465,087</u>                | <u>58,814</u>      | <u>30,173</u>    | <u>493,728</u>                  |
| Total capital assets, being depreciated, net  | <u>692,437</u>                | <u>25,387</u>      | <u>27,365</u>    | <u>690,459</u>                  |
| Capital assets, net                           | <u>\$ 707,437</u>             | <u>\$ 25,387</u>   | <u>\$ 27,365</u> | <u>\$ 705,459</u>               |
| <b>Business-type activities:</b>              |                               |                    |                  |                                 |
| <b>Capital assets, not being depreciated:</b> |                               |                    |                  |                                 |
| Land  | \$ 32,963                     | \$ -               | \$ -             | \$ 32,963                       |
| <b>Capital assets, being depreciated:</b>     |                               |                    |                  |                                 |
| Machinery and equipment                       | 42,054                        | -                  | 9,970            | 32,084                          |
| Plants and infrastructure                     | <u>1,679,647</u>              | <u>-</u>           | <u>12,771</u>    | <u>1,666,876</u>                |
| Total capital assets, being depreciated       | 1,721,701                     | -                  | 22,741           | 1,698,960                       |
| <b>Less accumulated depreciation for:</b>     |                               |                    |                  |                                 |
| Machinery and equipment                       | 11,842                        | 3,208              | 9,970            | 5,080                           |
| Plants and infrastructure                     | <u>745,660</u>                | <u>36,895</u>      | <u>11,614</u>    | <u>770,941</u>                  |
| Total accumulated depreciation                | <u>757,502</u>                | <u>40,103</u>      | <u>21,584</u>    | <u>776,021</u>                  |
| Total capital assets, being depreciated, net  | <u>964,199</u>                | <u>(40,103)</u>    | <u>1,157</u>     | <u>922,939</u>                  |
| Capital assets, net                           | <u>\$ 997,162</u>             | <u>\$ (40,103)</u> | <u>\$ 1,157</u>  | <u>\$ 955,902</u>               |

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE D—CAPITAL ASSETS—Continued**

|   | Balance<br>December 31,<br>2004 |
|---|---------------------------------|
| <b>Government activities:</b>                             |                                 |
| <b>Depreciation</b>                                       |                                 |
| Depreciation expense was charged to functions as follows: |                                 |
| General government  | \$ 2,522                        |
| Public works  | 54,519                          |
| Culture and recreation                                    | <u>1,773</u>                    |
|   | <u>\$ 58,814</u>                |
| <b>Business-type activities:</b>                          |                                 |
| <b>Depreciation</b>                                       |                                 |
| Depreciation expense was charged to functions as follows: |                                 |
| Sewer   | \$ 29,837                       |
| Water   | <u>10,266</u>                   |
|   | <u>\$ 40,103</u>                |

**NOTE E—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

The composition of interfund balances, caused by normal operation, is as follows:

***Due to/from other funds:***

| <u>Receivable fund</u> | <u>Payable fund</u> | <u>Amount</u>    |
|------------------------|---------------------|------------------|
| Sewer Fund             | General Fund        | \$ <u>21,753</u> |

***Due from/to primary government and component units:***

| <u>Receivable fund</u> | <u>Payable fund</u>               | <u>Amount</u> |
|------------------------|-----------------------------------|---------------|
| Component unit - DDA   | Primary government - General Fund | \$ <u>659</u> |

**NOTE F—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the Village for the year ended December 31, 2004.

|                                  | Balance<br>January 1,<br>2004 | <u>Additions</u> | <u>Deductions</u> | Balance<br>December 31,<br>2004 | Due within<br>one year |
|----------------------------------|-------------------------------|------------------|-------------------|---------------------------------|------------------------|
| <b>Business-type activities:</b> |                               |                  |                   |                                 |                        |
| Revenue bonds                    | \$ 168,000                    | \$ -             | \$ 34,000         | \$ 134,000                      | \$ 35,282              |
| General obligation bonds         | <u>47,162</u>                 | <u>-</u>         | <u>44,444</u>     | <u>2,718</u>                    | <u>2,718</u>           |
|                                  | <u>\$ 215,162</u>             | <u>\$ -</u>      | <u>\$ 78,444</u>  | <u>\$ 136,718</u>               | <u>\$ 38,000</u>       |

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE F—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

|  | Balance<br>December 31,<br><u>2004</u> |
|--|--|
| <b>Business-type activities:</b>   |  |
| <b>Revenue bonds:</b>  |  |
| \$500,000 Sewage Disposal System Improvement<br>Revenue bonds of 1970 due in annual installments<br>of \$19,000 to \$25,000 through December 2008;<br>interest at 5% | \$ 94,000                              |
| \$100,000 Water Revenue bonds of 1998 due in<br>annual installments of \$10,000 through May 2008;<br>interest at 5.25%   | 40,000                                 |
| <b>General Obligation bonds:</b>   |  |
| Rural Economic Development Loan of 1997 with final<br>monthly payment of \$2,718 due January 2005  | <u>2,718</u><br><u>\$ 136,718</u>      |

The general obligation bonds are backed by the full faith and credit of the Village.

The Village was in compliance in all material respects with all the revenue bond ordinances at December 31, 2004.

Annual debt service requirements to maturity for debt outstanding as of December 31, 2004 follows:

| Year ending<br><u>December 31, 2004</u> | <u>Business-type<br/>activities</u> |                  |
|---|-------------------------------------|------------------|
|   | <u>Principal</u>                    | <u>Interest</u>  |
| 2005                                    | \$ 38,000                           | \$ 6,538         |
| 2006                                    | 35,000                              | 4,763            |
| 2007                                    | 35,000                              | 2,988            |
| 2008                                    | <u>28,718</u>                       | <u>1,213</u>     |
|   | <u>\$ 136,718</u>                   | <u>\$ 15,502</u> |

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE G—OTHER INFORMATION**

**1. Risk Management**

The Village is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its liability and property risk by participating in Michigan Municipal Liability and Property Pool (MMLPP), a public entity risk pool providing property and liability coverage to its participating members. The Village pays an annual premium to MMLPP for its insurance coverage. The MMLPP is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Self-Insurance Fund (MMWCSIF), a public entity risk pool providing workers' compensation coverage to its participating members. The Village pays an annual premium to MMWCSIF for its workers' compensation coverage. The MMWCSIF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Village carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Village expects such amounts, if any, to be immaterial.

The Village is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Village's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Village.

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS**

**1. Pension Plan**

*Plan Description.* The Village is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS). The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the Village. A copy of the complete financial report and required supplemental information can be obtained by writing to:

Village of Ravenna  
12090 Crockery Creek Drive  
Ravenna, MI 49451

*Funding Policy.* Village employees are required to contribute 3 to 5 percent to the Plan depending on employee contract. The Village is required to contribute at an actuarially-determined rate of 5.58 percent of covered wages.

*Annual Pension Cost.* For the year ended December 31, 2004, the Village's annual pension cost was approximately \$8,500 which the Village contributed. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

| <u>Year ending<br/>December 31</u> | <u>Approximate<br/>Annual Pension<br/>Cost (APC)</u> | <u>Percent of APC<br/>contributed</u> | <u>Net Pension<br/>Obligation</u> |
|------------------------------------|--|---------------------------------------|-----------------------------------|
| 2002                               | \$7,000  | 100%                                  | \$ -                              |
| 2003                               | 5,900  | 100                                   | -                                 |
| 2004                               | 8,500  | 100                                   | -                                 |

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

| <u>Actuarial<br/>valuation<br/>date</u> | <u>Actuarial<br/>value of<br/>assets</u> | <u>Actuarial Accrued<br/>Liability (AAL)<br/>Entry Age</u> | <u>Unfunded<br/>AAL<br/>(UAAL)</u> | <u>Funded<br/>ratio</u> | <u>Covered<br/>payroll</u> | <u>UAAL as a<br/>percentage of<br/>covered payroll</u> |
|---|--|--|------------------------------------|-------------------------|----------------------------|--|
| 12/31/01                                | \$186,523                                | \$151,297  | \$35,226                           | 81%                     | \$35,226                   | 21%  |
| 12/31/02                                | 211,859                                  | 167,167  | 44,692                             | 79                      | 44,692                     | 38   |
| 12/31/03                                | 237,542                                  | 190,274  | 47,268                             | 80                      | 47,268                     | 38   |

Village of Ravenna  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
December 31, 2004

**NOTE H—EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS—Continued**

**2. Deferred Compensation Plan**

The Village offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time Village employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

**NOTE I—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 23 percent of General Fund revenues.

## **REQUIRED SUPPLEMENTAL INFORMATION**

Village of Ravenna  
BUDGETARY COMPARISON SCHEDULE  
General Fund  
For the year ended December 31, 2004

|  | Budgeted Amounts |            |            | Variance with<br>final budget<br>positive<br>(negative) |
|--|------------------|------------|------------|---|
|  | Original         | Final      | Actual     |   |
| REVENUES   |                  |            |            |   |
| Property taxes   | \$ 218,621       | \$ 218,621 | \$ 202,608 | \$ (16,013)   |
| Licenses and permits                                     | 7,500            | 7,500      | 4,635      | (2,865)   |
| Intergovernmental revenues - state                       | 109,887          | 109,887    | 98,196     | (11,691)  |
| Charges for services                                     | 45,000           | 45,000     | 45,860     | 860   |
| Fines and forfeitures                                    | 500              | 500        | -          | (500)   |
| Investment earnings                                      | 3,000            | 3,000      | 1,942      | (1,058)   |
| Other  | 53,500           | 53,500     | 75,186     | 21,686  |
| Total revenues   | 438,008          | 438,008    | 428,427    | (9,581)   |
| EXPENDITURES   |                  |            |            |   |
| Current  |                  |            |            |   |
| General government                                       |                  |            |            |   |
| Village Council  | 14,200           | 14,200     | 9,038      | 5,162   |
| Attorney   | 19,000           | 19,000     | 17,040     | 1,960   |
| Clerk  | 5,300            | 5,300      | 4,254      | 1,046   |
| Treasurer  | 5,300            | 5,300      | 4,022      | 1,278   |
| Building and grounds                                     | 18,500           | 18,500     | 17,952     | 548   |
| Public safety  |                  |            |            |   |
| Police and fire protection                               | 55,058           | 55,058     | 61,930     | (6,872)   |
| Building, plumbing, electrical and mechanical inspectors | 8,550            | 8,550      | 3,728      | 4,822   |
| Public works   |                  |            |            |   |
| Department of public works                               | 117,800          | 117,800    | 96,972     | 20,828  |
| Street lighting  | 30,000           | 30,000     | 28,251     | 1,749   |
| Sanitation   | 46,500           | 46,500     | 46,106     | 394   |
| Culture and recreation                                   |                  |            |            |   |
| Parks  | 38,730           | 38,730     | 35,941     | 2,789   |
| Other governmental functions                             |                  |            |            |   |
| Insurance and bonds                                      | 20,000           | 20,000     | 19,088     | 912   |
| Engineering  | 1,000            | 1,000      | 780        | 220   |
| Employer payroll taxes                                   | 15,000           | 15,000     | 13,655     | 1,345   |
| Capital outlay   | 10,000           | 30,000     | 84,201     | (54,201)  |
| Total expenditures                                       | 404,938          | 424,938    | 442,958    | (18,020)  |
| Excess (deficiency) of revenues over expenditures        | 33,070           | 13,070     | (14,531)   | (27,601)  |
| OTHER FINANCING SOURCES                                  |                  |            |            |   |
| Proceeds from sale of capital assets                     | 5,000            | 5,000      | 23,500     | 18,500  |
| Net change in fund balance                               | \$ 38,070        | \$ 18,070  | 8,969      | \$ (9,101)  |
| Fund balance at January 1, 2004                          |                  |            | 203,010    |   |
| Fund balance at December 31, 2004                        |                  |            | \$ 211,979 |   |

Village of Ravenna  
**BUDGETARY COMPARISON SCHEDULE**  
Major Streets Fund  
For the year ended December 31, 2004

|                                    | Budgeted Amounts |                  | Actual            | Variance with<br>final budget -<br>positive<br>(negative) |
|------------------------------------|------------------|------------------|-------------------|---|
|                                    | Original         | Final            |                   |   |
| REVENUES                           |                  |                  |                   |   |
| Intergovernmental revenues - state | \$ 82,741        | \$ 82,741        | \$ 94,138         | \$ 11,397   |
| Investment earnings                | 1,000            | 1,000            | 389               | (611)   |
| Other                              | 500              | 500              | -                 | (500)   |
| Total revenues                     | <u>84,241</u>    | <u>84,241</u>    | <u>94,527</u>     | <u>10,286</u>   |
| EXPENDITURES                       |                  |                  |                   |   |
| Current                            |                  |                  |                   |   |
| Public works                       | <u>58,950</u>    | <u>58,950</u>    | <u>65,629</u>     | <u>(6,679)</u>  |
| Net change in fund balance         | <u>\$ 25,291</u> | <u>\$ 25,291</u> | 28,898            | <u>\$ 3,607</u>   |
| Fund balance at January 1, 2004    |                  |                  | <u>167,519</u>    |   |
| Fund balance at December 31, 2004  |                  |                  | <u>\$ 196,417</u> |   |

## **OTHER DOCUMENTS**

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

May 12, 2005

Village Council  
Village of Ravenna  
Ravenna, Michigan

We have audited the financial statements of the government activities, each major fund, and the aggregate remaining fund information of the Village of Ravenna, as of and for the year ended December 31, 2004, which collectively comprise the Village of Ravenna's basic financial statements and have issued our report thereon dated May 12, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

### ***Compliance***

As part of obtaining reasonable assurance about whether the Village of Ravenna's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

### ***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the Village of Ravenna's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Brickley DeLong, PLC

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

May 12, 2005

Village Council  
Village of Ravenna  
Ravenna, Michigan

In planning and performing our audit of the financial statements of the Village of Ravenna for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could adversely affect the Village of Ravenna's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. We have attached a summary of such reportable conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended solely for the information of the Village Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



## REPORTABLE CONDITIONS

### *Cash*

Recommendation 1: Bank reconciliations for the savings account should be prepared on a timely basis.

During our audit, we noted that bank reconciliations for the checking account were timely prepared. However, bank reconciliations for the savings account were not prepared on a timely basis. The data required for the recording of certain cash transactions, which would have been identified during the year by the application of standard bank reconciliation procedures, were not identified until year end when such reconciliation procedures were eventually performed.

Bank reconciliations serve as a control procedure to determine that general ledger cash account activity is in agreement with bank statement activity for the same period. The timely performance of effective bank reconciliation procedures would ensure the timely detection of errors committed by bank and/or accounting personnel in the recording and reporting of cash transactions.

Recommendation 2: Only Village bank accounts should utilize the Village's federal identification number.

During our audit, we noted an organization associated with the Village community, Concert Series, has been using the Village's federal identification number on its bank account.

Since the Village has no oversight responsibilities over this organization or this bank account, it may be in the best interest of the Village to advise the bank and Concert Series that the Village's federal identification is restricted to the Village's use.

### *Payroll*

Recommendation 3: Employee submitted time sheets should have documented approval.

During our review of procedures surrounding the payroll function, we noted that employee submitted timesheets are reviewed but do not have approval documented thereon.

The documentation of timesheet approval would provide support that such timesheets received appropriate review and approval.

## REPORTABLE CONDITIONS—CONTINUED

### *Payroll—Continued*

Recommendation 4: Personnel files should maintain current salary and wage rate documentation.

During our detailed tests of transactions, we noted instances in which documentation on current salary and wage rates were not maintained in personnel files.

The maintenance of documentation for current salary and wage rates in personnel files would ensure that appropriate documents are readily available to support the compensation rate component of payroll transactions.

Recommendation 5: The employer portion of FICA expense should be allocated among the various departments and funds.

During our detailed tests of account balances, we noted that FICA expense was initially commingled with payroll expenses in the General Fund. At year end, an analysis and associated adjusting journal entries to allocate FICA expense for the year among the various departments and funds were required.

The allocation and recording of FICA expense among the various departments and funds with each payroll would provide more accurate monthly financials and would eliminate the requirement of an analysis and adjustment of FICA expense transactions during the year end closing process.